

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Marana Unified School District No. 6

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 21, 2009

Governing Board
Marana Unified School District No. 6
11279 West Grier Road
Marana, AZ 85653

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Chief Financial Officer in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



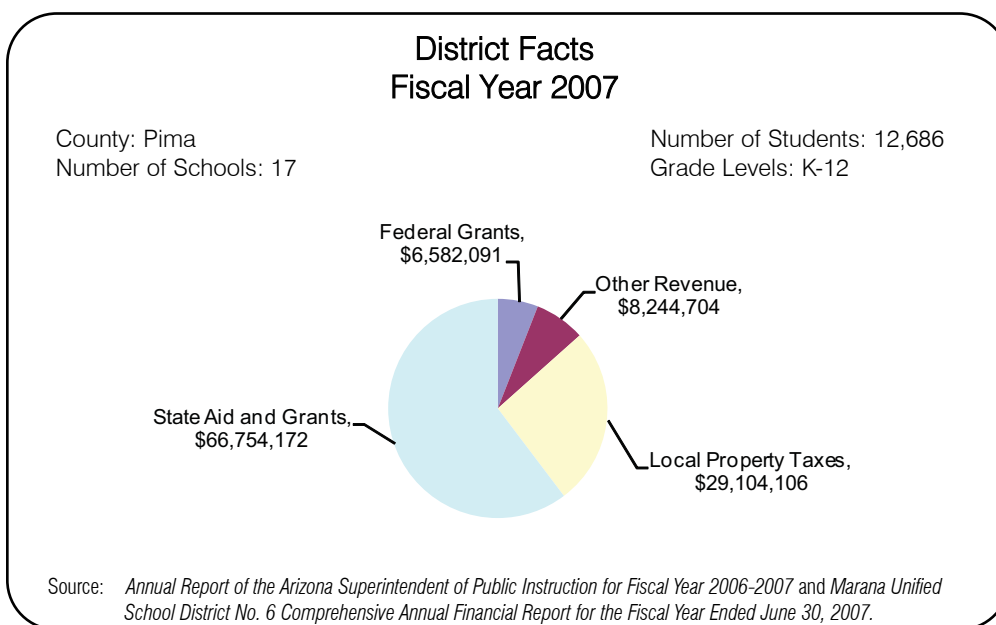
Introduction	1
Finding 1: The District should strengthen controls over competitive purchasing and expenditures	2
Finding 2: The District should maintain accurate student attendance records	4
Finding 3: The District's controls over its cash receipts and bank accounts should be strengthened	6
Finding 4: The District should improve controls over its capital assets	8
Finding 5: The District's procedures for payroll processing should be improved	9
Finding 6: The District should ensure the accuracy of its accounting records	10

INTRODUCTION

Marana Unified School District No. 6 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$110.6 million it received in fiscal year 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District should strengthen controls over competitive purchasing and expenditures

The District did not ensure that it received the best possible value for the public monies it spent, as it did not always follow the School District Procurement Rules.

School District Procurement Rules for competitive sealed bidding promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow such procedures. Specifically, for invitations for bids (IFB) and requests for proposals (RFP), the District did not always give vendors 14 days notice to respond to the IFB or RFP, and IFBs or RFPs did not always include all required information. Also, for RFPs, the District did not always determine that the use of competitive sealed bidding was either not practical or not advantageous to the District before issuing RFPs. In addition, for one IFB, two bids were received after the submission deadline and were included in the evaluation, and one of those vendors was awarded the contract. Further, for sole source purchases, the District's determination of the vendor as sole source was not always reasonable based on the goods or services provided.

Additionally, it is essential that the District follow proper expenditure processing procedures. However, the District did not follow such procedures since employees making credit card purchases were not always identified and the credit card sign-in and sign-out log used to identify card users at Mountain View High School was destroyed. Also, for mileage reimbursements, the miles traveled were not always calculated correctly and miles from home to work were inappropriately reimbursed. Finally, some employees were reimbursed for amounts in excess of the Arizona Department of Administration (ADOA) maximums for meals and lodging; and excess amounts were not included on the employees' W-2 forms.

Recommendations

To comply with School District Procurement Rules and to strengthen controls over competitive purchasing and expenditures, the District should establish and follow the policies and procedures listed below:

Competitive Purchasing

- Provide adequate notice to vendors of IFBs or RFPs and retain documentation to support that adequate public notice was given.
- Include all applicable factors required by the School District Procurement Rules in its IFBs and RFPs.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

- Obtain and retain a written determination from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District prior to issuing RFPs.
- Reject late bids in accordance with the School District Procurement Rules.
- Obtain oral price quotations from three or more vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from three or more vendors for purchases estimated to cost between \$15,000 and \$33,689. If three quotations cannot be obtained, the District should document the vendors contacted who did not offer price quotations and their reasons for not providing quotations. For purchases identified as sole source above \$33,689, the Governing Board must determine in writing that there is only one source for the required material, service, or construction item, and the District should retain the determination in the procurement file. Sole source procurement should be avoided, except when no reasonable alternative vendor exists.

Expenditures

- Obtain and retain adequate supporting documentation for credit card purchases, including signed credit card receipts and itemized vendor receipts. The receipt should clearly indicate the employee making the purchase and the purpose of the charge.
- Maintain sign-in and -out logs for credit cards to identify the employee using each card.
- Have a second employee review travel claims to ensure travel expenditures are appropriate, properly calculated, and within the limits set forth by ADOA.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

FINDING 2

The District should maintain accurate student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate student attendance records to ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not fully accomplish this objective. Specifically, the District improperly submitted attendance for preschool students with disabilities that did not meet the requirements of a preschool program.

The District may not have received the appropriate amount of funding because it did not report membership and absences correctly.

Also, the District did not always properly report absences for elementary, junior high, and high school students; did not properly prorate the membership of high school students enrolled in fewer than four subjects or the equivalent; and did not always retain documentation of the actual number of subjects in which students were enrolled during the school year. In addition, Technology Assisted Project-Based Instruction (TAPBI) program student attendance records were not always correct. Further, the District did not always retain student entry and withdrawal forms, retain documentation to support the absences of students withdrawn for having ten consecutive unexcused absences, or document the date that withdrawal information was entered into the District's computerized attendance system.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Ensure that only attendance for preschool students with disabilities, who are enrolled in an eligible preschool program, is reported to ADE.
- Record attendance for students in first through eighth grades, if attendance is based on half days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Record attendance for high school students in accordance with the chart provided in ADE's *Instructions for Required Reports*.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Prorate part-time high school students' membership in proportion with the number of courses and instructional hours in which the student is enrolled.
- Ensure that students enrolled in a TAPBI program maintain an accurate attendance log and that the District properly compiles those logs.
- Retain documentation, including entry and withdrawal forms, to support data reported to ADE.
- Ensure students having ten consecutive unexcused absences are withdrawn correctly so that these students are counted in membership only through the last day of attendance. Documentation should be retained to support the number of unexcused absences at the time of withdrawal.
- Record withdrawals in the District's computerized attendance system within 5 working days of the date of withdrawal and indicate the date entered into the system on the withdrawal forms.

FINDING 3

The District's controls over its cash receipts and bank accounts should be strengthened

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash. These controls should require that cash transactions are properly supported, and that bank accounts are adequately monitored. However, the District did not have strong controls over its cash receipts and bank accounts. For example, the District did not

The District did not always verify its bank balances as it did not consistently prepare bank reconciliations.

reconcile auxiliary operations cash received to the tickets sold, cash register tapes, or inventory counts. Additionally, the District improperly deposited miscellaneous receipts into the Maintenance and Operation (M&O) Fund revolving bank account, and the District's Food Service Fund clearing account monies were not remitted to the County Treasurer at least monthly. Further, the District did not prepare written bank reconciliations for the State Income Tax Withholdings, Federal Payroll Tax Withholdings, or Electronic Payments clearing accounts, and the book balance used on the reconciliation of the student activities bank account did not agree to the check register balance.

Recommendations

To strengthen controls over its cash receipts and bank accounts, the District should:

- Prepare cash collection or activity reports to document and reconcile auxiliary operations monies received to receipts, tickets issued, or items sold. If it is not practical to prepare cash receipt forms, sell tickets, or count items before and after the sale, the District should still prepare cash collection reports to document amounts received.
- Ensure the M&O Fund revolving account is used for activities that require immediate cash outlays such as postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements. Only district warrants reimbursing the revolving account should be deposited into the account.
- Deposit miscellaneous receipts into the Miscellaneous Receipts clearing account or appropriate fund with the County Treasurer.

The forms on USFR pages X-G-22 may be used to document auxiliary operations cash collections.

- Remit Food Service Fund clearing account monies to the County Treasurer weekly, or at least monthly.
- Prepare complete and accurate monthly written bank reconciliations for all bank accounts to reconcile bank and checkbook balances. Bank reconciliations should be prepared by an employee not responsible for handling cash or issuing checks. All differences should be investigated and resolved.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

FINDING 4

The District should improve controls over its capital assets

The District did not effectively account for or control its capital assets.

The District has invested a significant amount of money in its capital assets. In order to protect its investment, the District should have complete and accurate lists of these assets to ensure they are properly identified and accounted for. However, the District did not accomplish this objective. Specifically, stewardship items could not always be found on the District's premises, and information for several assets (tag number, description, or location) did not agree to the stewardship list. Also, the District did not ensure current year acquisitions were properly included on the capital assets, and stewardship lists as capital acquisitions were not reconciled to capital expenditures. Further, the District has not taken a physical inventory of its capital assets and stewardship items within the last 3 years.

Recommendations

To improve controls over its capital assets, the District should maintain a stewardship list that includes all equipment, with a cost of \$1,000 or more but less than \$5,000. The District's stewardship list should include the item's description, identification or tag number, location for the item, and the month and year of acquisition. Also, the District should reconcile capital asset additions to capital expenditures to ensure all current year acquisitions are included on the capital assets and stewardship lists. Further, the District should perform a physical inventory of all equipment items at least every 3 years, and retain written instructions, inventory count sheets, and other documents relating to the physical inventory, including reconciliations.

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

FINDING 5

The District's procedures for payroll processing should be improved

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately, that leave is properly calculated and reported, and that adequate records are maintained to support payroll expenditures. However, the District's system did not always properly account for leave usage, the sick leave schedule was not reconciled to the previous year's schedule, and the spreadsheet used to prepare the compensated leave schedules included several errors. In addition, the District did not always adjust employees' pay for time off in excess of accrued leave. Further, the District did not always maintain documentation to support pay increases and changes in hours worked per week, and employee contracts did not always specify the pay option used to annualize the salary.

The District understated its employee sick leave liability by \$350,000 because of inadequate recordkeeping.

Recommendations

To help improve payroll processing, the District should prepare leave summaries or other similar forms to record vacation, personal, sick, and compensatory time earned and used for each employee. These records should be updated at the end of each pay period, and a second employee should verify that leave balances are calculated correctly. Also, the current year's sick leave schedule should be reconciled to the previous year's schedule. In addition, the District should ensure employees are paid only for hours worked and accrued leave taken. Finally, the District should include all required documentation in the employees' personnel files to support the payroll.

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

FINDING 6

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should prepare accurate and complete accounting records and annual financial report (AFR).

The District did not always record transactions properly in its accounting records or ensure its records were reconciled monthly to the County School Superintendent.

However, the District did not fully accomplish this objective. Specifically, the District improperly recorded federal and state revenues as local revenue, recorded federal grants as gifts and donations, and paid indirect costs from federal and state grant funds rather than the Indirect Costs Fund. In addition, the District did not reconcile its records to the County School Superintendent's (CSS) records monthly. Finally, the District's budgeted and actual expenditures reported on the AFR did not always agree to the District's revised expenditure budget and accounting records.

Recommendations

To ensure the accuracy of its accounting records, the District should classify transactions in accordance with the USFR Chart of Accounts. In addition, the District should reconcile its records of cash balances by fund monthly to the CSS' records. Any reconciling items should be investigated, and necessary corrections should be made. Also, the District should update its accounting records for all budgeted and actual expenditures before preparing the AFR and have a second employee verify that the amounts reported on the AFR agree with the District's expenditure budget and accounting records before submitting it to ADE.

USFR pages VI-B-8 and 9 include reconciliation procedures.